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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

RUCPDOC/DEPT OF COMMERCE WASHDC

RHEBAAA/DEPT OF ENERGY WASHDC

RUEATRS/DEPT OF TREASURY WASHDC

RULSDMK/DEPT OF TRANSPORTATION WASHDC

RHMFIUU/FAA NATIONAL HQ WASHINGTON DC

RUEHRC/DEPT OF AGRICULTURE WASHDC

UNCLAS SECTION 01 OF 03 NEW DELHI 002334

SIPDIS

SENSITIVE

STATE FOR SCA/INS AND EEB

USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD

DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR

DEPT PASS TO USTR CLILIENFELD/AADLER/CHINCKLEY

DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT

TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN

USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER

EEB/CIP DAS GROSS, FSAAED, MSELINGER

E.O. 12958: N/A

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KIPR, KWMN, PHUM, SENV, IN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF  
AUGUST 25 TO AUGUST 29, 2008

**11.** (U) Below is a compilation of economic highlights from Embassy  
New Delhi for the week of August 25 to August 29, 2008, including  
the following:

-- TAMIL NADU'S WIND POWER WOES CONTINUE  
-- FOREIGN EXCHANGE RESERVES DECLINE  
-- ...AND ITS IMPACT ON EXPORTERS  
-- MOBILE SUBSCRIBERS HITTING NEW HIGHS  
-- MAJOR US CASINO LOOKING AT GOA  
-- GM COMMITS TO \$200M FACTORY IN MAHARASHTRA  
-- INDIA-ASEAN FTA NEGOTIATIONS CONCLUDE

TAMIL NADU'S WIND POWER WOES CONTINUE

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**12.** (U) Residents of Tamil Nadu continue to face rolling blackouts ("load shedding") as the state continues to fail to produce enough electricity to meet demand. Lack of rain had earlier reduced capacity to produce power from hydro sources, now a drop in wind speed following rains in the area have lowered expected production from the state's wind farms by nearly 75 percent, leaving the grid short by approximately 1000 megawatts of capacity.

**13.** (SBU) The chairman of a small wind farm (four 1250kW windmills) told Consulate Chennai that his operation produced 50 percent less power than expected this season (usually the peak windpower season in Tamil Nadu) and that his windmills have been standing still since mid-August when unseasonable rains hit the state. He said that stopping windmills during the monsoon season was normal, noting, however, that the monsoon season in Tamil Nadu generally does not start before mid-October and that the August-September timeframe is traditionally peak season for windpower production.

FOREIGN EXCHANGE RESERVES DECLINE

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**14.** (U) According to the Reserve Bank of India's (RBI) weekly statistical supplement, India's foreign exchange reserves have declined by nearly \$20 billion in the last three months to \$296.21 billion on August 15. Forex reserves touched an all-time high of \$316 billion in May 2008, but have been depleted since then. (Note: According to a recent IMF study, India's current reserves are much

above the optimal level, indicating that foreign exchange accumulation has reduced external vulnerabilities and decreased the risk of financial contagion. End note.) The recent fall in reserves is mainly due to the RBI intervening in the foreign exchange market by selling dollars to temper the rupee's recent slide. The rupee has fallen to its lowest level against the dollar in more than 18 months, hovering at Rs 44.10/dollar on August 26. After appreciating 12.3 percent in 2007, the rupee has depreciated more than 10 percent in 2008 to date.

Most analysts credit the rupee's weakening to the \$7 billion in outflows of foreign institutional investors from India's equity markets since March, a reversal from the roughly \$20 billion net inflow last fiscal year. In addition, government-owned oil companies have been buying dollars for higher cost imports, following the rise in crude oil prices over the last two months, putting further downward pressure on the rupee.

#### ...AND ITS IMPACT ON EXPORTERS

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**¶15.** (U) The last eighteen months of a volatile rupee have been tough on exporters, who are used to more predictable directional movements in the rupee. Exporters who had hedged in the last year against a stronger rupee at Rs 39.5/dollar are not happy at the more recent pace of decline of the rupee. As there is a time lag of a few months between booking of orders, delivery of goods and realization of payments, exporters do not know how to price their goods. Ganesh Gupta, President, Federation of the Indian Export Organization commented that frequent exchange rates fluctuations cause loss in revenue to the exporters. On the other hand, exporters who had not hedged their dollar earnings are relieved as a weaker rupee will

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give them higher profits. Gupta opines that if the current exchange rate is maintained, exports will grow by 35 percent in FY 2008-09 and exceed the target of \$200 billion set by the government for the year. India's exports rose by 22.3 per cent to \$42.84 billion between April-June 2008 as compared to a growth of 23 percent to \$155.5 billion for full FY 2007-08. Sanjay Kothari, Chairman of the Gems and Jewellery Export Promotion Council too prefers a stable exchange rate between Rs 42-43/dollar for purposes of forward contracts. Analysts indicate that the rupee is headed for a short-term decline on concern of slower growth, high inflation and capital outflows from foreign institutional investors.

#### MOBILE SUBSCRIBERS HITTING NEW HIGHS

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**¶16.** (U) According to the latest data from the Telecom Regulatory Authority of India, India remains the fastest growing mobile services market with a total user base now at 296 million as of July 2008. In the month of July alone, mobile operators, GSM and CDMA together, added 9.22 million subscribers, which is the highest ever addition in a single month. The overall tele-density (defined as the availability of cellular phones as a percentage of the population) in India at the end of July crossed 29 percent. The growth in the sector is expected to cross the 10 million per month threshold as new operators start rolling out their services. Videocon, Unitech, Reliance and Tata Teleservices all have plans to launch GSM mobile services by year end. This will help the government to achieve its target of 500 million cellular phone users by the year 2010.

#### MAJOR US CASINO LOOKING AT GOA

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**¶17.** (U) Indian news reported on comments this week by the head of major casino Las Vegas Sands that the company is interested in investing as much as \$12 billion on a strip of casinos in India, similar to the ones it has in Macau, if the government of India invites it in. Chairman Sheldon Adelson had just come from a visit to India, where he met with the Ministers of Tourism and Trade. He stated that Las Vegas Sands is interested in setting up a casino in Goa. Currently, Indian law does not permit casinos. Goa, a coastal state, has issued a few licenses for offshore casinos, thus circumventing the restrictions. Several US casinos are eyeing markets in Asia, especially Singapore and Macau, the only place in China where casinos are legal. Adelson noted that Macau's gambling

revenues are expected to exceed the combined total of Las Vegas and Atlantic City casinos this year.

GM COMMITS TO \$200M FACTORY IN MAHARASHTRA

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**¶8.** (U) General Motors formalized its plan to invest \$200 million in the creation of a new manufacturing plant in Talegaon, in Pune district, for the production of powertrain engines. The new investment adds to an existing \$300 million investment in production facilities. The new facility will start with an annual production capacity of 160,000 engines, with the possibility of scaling up to 300,000 engines annually. Karl Slym, President and Managing Director, GM India, commented that the plant is part of GM's global strategy to position itself in strong emerging markets. He said that the Talegaon investment is part of a \$1 billion invested in markets such as Russia and China.

INDIA-ASEAN FTA NEGOTIATIONS CONCLUDE

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**¶9.** (U) Indian news reported on August 29 that a free trade agreement (FTA) between the Association of South East Asian Nations (ASEAN) and India will be signed in December 2008 on the sidelines of the ASEAN Summit in Bangkok. According to the ASEAN Secretariat, the FTA text is being finalized following the recent resolution of obstacles on market access issues on palm oil between India and the 10-member ASEAN. The formal announcement for conclusion of the talks came immediately after the India-ASEAN Economic Ministers consultation meeting in Singapore on August 28, which was led on the

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Indian side by Commerce Minister Kamal Nath.

**¶10.** (U) The agreement covering trade in goods between the ASEAN and India was scheduled to conclude last year; however, talks were hobbled until mid-August due to differences over products which India wanted to exclude from tariff cuts. New Delhi had submitted a list of 1,414 products, while ASEAN's target number was 400. After many rounds of negotiations, India has agreed to keep 489 items out of the tariff cut by putting them in the "negative list".

**¶11.** (U) Under the FTA, India will eliminate or substantially reduce duties on almost 96 per cent of the items it trades with ASEAN (electronic goods, edible oils, coal, coke, chemicals and machinery) but protect the sensitive farm sector. India and ASEAN will bring down the duty to zero on 71 percent of products by December 31, 2012 and another 9 percent by 2015; and duties on another 8-10 percent of the products will be slashed to 5 percent. A limited number of products will be excluded from tariff concessions based on the domestic sensitiveness of the respective countries. The FTA provides for a special track for tariff reduction for five specific products (crude and refined palm oil, pepper, tea, coffee) of interest to the ASEAN members. According to Minister Nath, India has cut its tariff on crude palm oil to zero from 50-60 percent, and its peak tariff rate now averages 9.7 percent.

**¶12.** (U) India is currently ASEAN's seventh largest trade partner. According to the ASEAN Secretariat, two-way trade between the ASEAN and India amounted to \$37 billion in 2007, up 29 percent from the previous year. India-ASEAN trade is expected to grow to \$50 billion by 2010. ASEAN is reportedly seeking to strengthen regional trade ties, given the current uncertainty over the Doha Round of global trade talks.

**¶13.** (U) Visit New Delhi's Classified Website:  
<http://www.state.sgov/p/sa/newdelhi>

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